COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND
Bank Enterprise Award Program
Policy Guidance on Participation Loans
(Issued January 31,2001)

The purpose of this document is to clarify the policy of the Community Development Financial Institutions Fund (the "Fund") with respect to participation loans for purposes of calculating awards under the Bank Enterprise Award ("BEA") Program. Capitalized terms not defined in this document are defined in the applicable BEA Program Notice of Funds Availability, the BEA Program Regulations, or the Glossary to the BEA Program Initial Application.

Background:

The Fund makes BEA Program awards to banks and thrifts that, among other activities, make loans and investments in communities with certain poverty and unemployment characteristics (See the BEA Program Regulations at 12 C.F.R. §1806.101). Specifically, applicants that make loans to CDFIs may be eligible to receive a BEA Program award. In recent years, BEA Program applicants have increasingly engaged in participation lending as a means of making loans to CDFIs and in Distressed Communities. The Fund has decided to issue this formal guidance to illustrate the types of structures it will consider to be eligible participation loans for the purpose of calculating BEA Program awards.

BEA Program Eligible Participation Loans:

Generally, a participation loan is a loan that is made jointly by two or more lenders to a borrower. Some participation loans involve a promissory note that references all of the lenders to the transaction with each independently disbursing loan proceeds to the borrower. However, the most common form of participation loan involves one of the lenders serving as a "lead lender" or "agent" for the group. In this case, the borrower signs the note to the order of the lead lender, solely. The lead lender then disburses all loan proceeds and the borrower makes payments of principal and/or interest solely to the lead lender. The other "participating lenders" usually sign a "participation agreement" that outlines their agreement to fund a portion of the loan issued by the lead lender, their respective rights to loan proceeds, and the obligations of all parties to the transaction. The lead lender and all of the participating lenders generally sign this agreement. It is important to note that the disbursement of funds to the "lead lender" or "agent" to fund loans to third parties does not constitute a loan by one or more participating lenders to the lead lender or agent.

A participation loan is treated as any other loan under the BEA Program. As such, it may qualify as either a CDFI Support Activity or a Development and Services Activity. In order for a participation loan to be considered a CDFI Support Activity, the borrower must be a CDFI and the monies drawn used to support the CDFI's activities. If the CDFI is participating in, or otherwise facilitating, the loan transaction -- but is not the actual borrower -- the transaction will not be considered a CDFI Support Activity. In order for a participation loan to be considered a Development and Service Activity, the borrower or activity financed must be located within or integrally involved in a designated Distressed Community.

As with other loans, in order for a participation loan to be a Qualified Activity under the BEA Program, the loan must be closed and an initial disbursement made during the applicable Assessment Period. Thus, all parties to the transaction must sign and execute the loan documents within the Assessment Period specified in the applicable Notice of Funds Availability. If the transaction involves a participation agreement between two or more lenders, such agreement may be signed prior to or during the Assessment Period provided that the note or loan agreement is signed within the Assessment Period. A BEA Program applicant will not receive a BEA Program award for a participation loan unless it is specifically named as a lender or party to the original transaction in either the note or the participation agreement. Accordingly, a BEA Program applicant will not receive credit for purchasing a participation in a loan after the loan's origination if the applicant was not part of the original participation agreement.

In some cases, participation agreements between lenders may be in effect for multiple years, involve multiple loan agreements or notes, or involve multiyear disbursements on a single loan. While a participation agreement among lenders may be executed prior to an applicable Assessment Period, a BEA Program applicant shall receive an award only for a loan funding a particular Qualified Activity that is closed during the Assessment Period. Thus, a transaction involving a disbursement on a loan closed prior to the beginning of or after the end of the applicable Assessment Period is ineligible for a BEA Program award.

In some cases, a group of lenders may choose to renew or extend a participation loan the term of which is expected to expire during an applicable Assessment Period. As is the case with all renewed loans under the BEA Program, in the case of a loan that matures, is fully paid and is then renewed during the Assessment Period, the applicant will be eligible to receive the full value of its share of the principal amount of the renewed participation loan. However, in the case of a participation loan that is not set to expire during the Assessment Period but is refinanced, the BEA Program applicant will be eligible to receive only the value of its share of any increase in the principal amount of the refinanced loan.

The Fund will disburse to an applicant, on a prorated basis, the proceeds of a BEA Program award earned by the applicant as a result of its engagement in Qualified Activities, as the applicant disburses the proceeds of its loan to the borrower. The applicant must provide evidence that it has made, or has caused to be made, an initial disbursement directly to the borrower during the applicable Assessment Period.